

October 17, 2013

SUMMARY OF LEGISLATION TO REOPEN THE GOVERNMENT AND RAISE THE DEBT CEILING

The Washington showdown over funding the federal government through a Continuing Resolution (CR) and lifting the nation's cap on borrowing (also known as the debt ceiling) has finally ended. A bipartisan agreement forged between Senate Democratic Leader Harry Reid (NV) and Senate Republican Leader Mitch McConnell (KY) passed the Senate yesterday by a vote of 81-18 (54 Democrats and 27 Republicans voting yes) and in the House by a vote of 285-144 (87 Republicans and 198 Democrats voting yes). The President signed the bill into law immediately.

WHAT IS IN THE LEGISLATION?

The legislation will reopen the federal government, avoid default, maintain the sequestration spending cuts, and set the stage for a bipartisan, bicameral negotiation over the federal budget. Specifically, the bill will:

- Reopen the government by providing funding through January 15, 2014, at an annualized level of \$986 billion;
- Maintain spending cuts established through the sequestration process in the Budget Control Act of 2011;
- Raise the debt limit through February 7, 2014;
- Instruct the House and Senate to name conferees to a budget conference committee that would seek to produce an agreement over the two chambers' competing budget resolutions by December 13, 2013;
- Provide retroactive pay for furloughed government employees; and
- Require HHS to implement a system for verifying income eligibility for people receiving health insurance subsidies under the Affordable Care Act (ACA).

WHAT POLICY DIFFERENCES FORCED THE SHOWDOWN?

Republicans in the House and in the Senate sought to use the potential government shutdown and debt ceiling crises as a way to defund or delay the ACA and/or to bring about spending reforms. President Obama maintained that he would not negotiate in the context of a government shutdown or a possible default on the nation's outstanding obligations.

WHO WON IN THE FINAL DEAL?

President Obama was able to declare victory because the bipartisan agreement did not repeal any parts of the ACA and did not implement any further spending cuts. Republicans claimed victory because the deal maintained the sequestration spending levels, which will lead to the first consecutive annual decline in spending in half a century. Many Republicans, however, opposed the bipartisan compromise because it failed to materially affect the ACA or enact further spending or entitlement reforms.

WHAT COMES NEXT?

While leaders of both parties are spinning the press on who won and lost in the deal, the reality is that the tough policy choices were kicked down the road. The short-term deal sets the stage for a bipartisan, bicameral negotiation on taxes and spending that will occur through the appointment of a budget conference committee that is given a deadline to report a budget agreement by December 13, 2013. The partisan divide in the budget conference committee discussions will center on whether the federal government needs more tax revenue or more spending cuts.

The budget conference committee could potentially reenergize the push for comprehensive tax reform by creating a venue and mechanism to bring both sides to the table. This conference committee could issue specific tax reform instructions, such as target tax rates for individuals and corporations and deadlines to produce or pass tax legislation out of the relevant committees.

WHAT IS THE LIKELIHOOD OF A GRAND BARGAIN COMING OUT OF THIS PROCESS?

The policy divide over increasing tax revenue has prevented the parties from agreeing to a grand bargain over the past couple of years. The odds of overcoming that divide before December 13 are long, but both parties will be incentivized to come to some agreement on tax and spending issues prior to the new potential crisis points created by the legislation: (1) government funding runs out again on January 15, 2014, and (2) the debt ceiling limit will be reached on or around February 7, 2014.

The Republicans' best leverage point is the next round of sequestration cuts and the best hope for bringing both sides together in a grand bargain. Democrats have grown increasingly concerned about sequestration and the Republicans may be willing to trade some relief from the cuts in exchange for cuts to mandatory spending on entitlements. Some of the entitlement reforms and savings that have been suggested in the past include raising the eligibility age for Medicare, additional means-testing for Medicare premiums, and adjusting the inflation index used to calculate the rate of growth for Social Security benefits.